PEAK OIL REVISITED: THE BILL COLLECTOR CALLS

As major oilfields continue to decline in productivity, as new infrastructure is too expensive to build and as global oil reserves cannot meet demand, we are on the brink of a worldwide economic and social crisis.

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The one thing that every Middle Eastern leader, manager and planner who dreams of holding his country together fears now is that there will be a widespread uprising inspired by the perceived victory against Spain after [the bombing in] Madrid and Spain's withdrawal from Iraq, that it might prompt much of the Muslim world to start attacking oil facilities everywhere. This is the way they see that has worked, to defeat the West and to avenge their grievances. May God help us all if that happens. Stability must come to Iraq. But how?

— Anonymous Middle Eastern participant at the Third Conference of the Association for the Study of Peak Oil and Gas, Berlin, Germany, May 2004

June 21, 2004, Berlin and Los Angeles — *From The Wilderness* (*FTW*) began writing about Peak Oil in the summer of 2002. It was much more difficult then to discuss Peak Oil, what it means or how certain, quick and defiant was to be its arrival. Denial in many minds was so instant and overwhelming that only a trained eye could see its millisecond appearance before encountering the brick wall of a closed mind.

By the spring of 2004, things had changed dramatically. This is both the good news and the bad news. In May 2004, I attended the Third Annual Conference of the Association for the Study of Peak Oil and Gas (ASPO) in Berlin, Germany. Although I have a great many friends in ASPO, I tend to leave these conferences feeling as though I've had a big meal but am still hungry. Governed as they were by scientific protocols, the 2003 and 2004 conferences seemed to occur in vacuums. With the cool professionalism that's proper to scientific discourse, the conferences marshalled excellent resources of data and analysis while remaining eerily detached from political and economic developments in the outside world—detached from 9/11, from violence and intrigue in Iraq, in Saudi Arabia, in West Africa, in Venezuela; detached from bitter conflict and bloodshed, and from economic disintegration.

That disconnect was nowhere near as obvious in Paris in May 2003 as it was in Berlin a year later. From May 24, 2004, as people arrived for the conference, through to the final day on May 26, the hottest conversations were as much about what was going on in the headlines as about what was being discussed inside the room. The two didn't converge nearly enough. Peak Oil, Berlin, was almost twice as large as Paris had been.

Many of the 250-plus attendees arrived on both mornings with papers under their arms containing stories about oil shortages and economic issues connected thereto. They tended to meet outside for drinks or meals, asking: "Have you seen the cover of the June 2004 *National Geographic*? It's Peak Oil!"; "Did you see the *International Herald Tribune* today on global production and supply?"; "Do you think the Saudis really can increase production, or are they bluffing?"; "Did you see where Shell has downgraded its reserves, again!?"; "Did you notice that someone finally attacked a Saudi oil facility? Now the Saudis won't have to prove that they can increase production, either to their people or the markets. It's the perfect excuse."

This had been no overnight development. For almost the entire year between the Paris and Berlin conferences, the icons of the mainstream press—the ones known and employed to mould public and business perception—had been acknowledging Peak Oil's reality, sometimes reluctantly, sometimes less than directly, but also sometimes very boldly. CNN, the BBC, the *New York Times*, the *Economist*—dozens of media giants had begun to respond, like a giant ship turning slowly in the water. The ship had clearly changed course, but was it enough? Was it in time?

In Berlin: Show versus Substance

Present in Berlin for the ASPO conference on May 25 and 26 were some newcomers, senior representatives from British Petroleum, ExxonMobil and the International Energy Agency (IEA). They came as nobles called to a commoners' court: polite, courteous, but waving their flags just the same, unperturbed by the growing mess around them. If nothing else, their presence served as a reminder that Peak Oil was squarely on the table. Even from their denials came startling revelations.

As the press reports describing a disintegrating world outside rolled on, the debate inside still seemed removed from it all. It felt strange to discuss Peak Oil in a purely data-driven way, while knowing how utterly it will shatter our growth-driven industrial civilisation.

The big three of ASPO—Colin Campbell, Kjell Aleklett and Jean Laherrère—accompanied by the *de facto* star of the event, investment banker Matthew Simmons, had their work cut out for them; not with the audience but with those who had come to deny.

Natural gas issues facing Europe took up most of the first day. Two things quickly became clear on that account. Firstly, almost all of Europe, soon even perhaps Ireland, is going to become dependent upon Russian natural gas to stay warm (Britain has just become a net gas importer in the face of North Sea decline). Secondly, Russia has much less natural gas than the economists and bookkeepers have predicted.

Simmons asked rhetorically why anyone would stake their future on four large Russian fields that have been shown to be in permanent decline. It was a good question, especially in light of the fact that Laherrère, with his renowned calculations, concluded that natural gas demand in Europe would grow at 6.4% per year, that the global natural gas cliff would hit by approximately 2030, and that by 2050 there would be zero reserves left. He calmly announced that, as far as Russian gas reserves are concerned, there is a 50% difference between the technical data on Russian gas and what he called the "political" data. Simmons pointed out that North America hit its natural gas peak in 1973 and is now falling off the production cliff.

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Presentations exploring liquefied natural gas (LNG) imports to the USA concluded what *FTW* already knew: the cost is too expensive, the lead-time too long, and the capital investment too great to make much of a difference here.

Everybody, even the giant German power companies like RWE, talked about coal. Nuclear, at least for some, was also an option but there were no other viable near-term solutions presented. Token representatives of hydrogen and alternative energies made presentations—but for those who had looked at hard numbers, these were more show than substance.

Saudi Arabia: The Hot Topic

Saudi Arabia's promise to increase production to meet US and world economic needs was the hot topic. Much discussion and hard data were devoted to the fact that Ghawar—the largest field in the world—is, along with all of Saudi Arabia's other large fields, old and tired. In recent years, both water injection and so-called "bottle-brush" drilling have been employed to maintain production, and both of these techniques tend to accelerate decline and damage the reservoirs. They are desperate measures.

With bottle-brush drilling, when the water table hits the horizontal shaft, often without warning, the whole field is virtually dead and production immediately drops off to almost nothing. As several at the conference noted, this is exactly what has already happened in Oman, Syria and Yemen.

As William Kennedy, a UK observer at the conference, noted afterwards: "For the record, Ghawar's ultimate recoverable reserves in 1975 were estimated at 60 billion barrels—by ExxonMobil, Texaco and Chevron. It had produced 55 billion barrels up to the end of 2003 and is still producing at 1.8 billion per annum. That shows you how close it might be to the end. When Ghawar dies, the world is officially in decline."

No one, not even from the major oil companies or the economic camp, rose to defend Saudi Arabia's claim that it could increase production rapidly.

The BBC's Adam Porter ("Is The World's Oil Running Out Fast?", BBC News, June 7, 2004) nailed the IEA's Chief Economist, Faith Birol, over his confident assertion that there is still plenty of oil:

"In public, Mr Birol denied that supply would not be able to meet rising demand, especially from the buoyant economies in the USA, China and India.

"But after his speech, he seemed to change his tune.

"'For the time being, there is no spare capacity. But we expect demand to increase by the fourth quarter [of the year] by 3 million barrels a day.'

"He pinned his hopes for an increase in production squarely on troubled Saudi Arabia.

"'If Saudi does not increase supply by three million barrels a day by the end of the year, we will face...how can I say this...it will be very difficult. We will have difficult times. They must invest.'

"But even Mr Birol admitted that Saudi production was 'about flat'. Three million extra barrels a day would mean a huge 30% leap in output in just a few months.

"When BBC News Online followed up by asking if this giant increase in production was actually possible rather than simply a desire, he refused to answer. 'You are from the press? This is not for you. This is not for the press.'"

Mistakes of the Energy Industry

In his presentation, Matthew Simmons, CEO of Simmons and Co. International, the world's largest investment bank, reeled off a litany of "mistakes" made by the energy industry over decades. He described some of these mistakes as: demand was never understood properly; supply was merely aspiration (not actual reality); decline curves became waterfalls; we didn't have enough rigs (infrastructure); there was little fuel substitution; there were few technology gains.

Simmons described these mistakes as cascading and compounding over time, and suggested that the underlying cause of all of them was the inherent assumption pushed by the financial markets that growth could possibly be infinite—when nothing else in the physical universe is; when no organism or species has ever avoided the cycle of growth, maturity and decline that governs the natural world.

Colin Campbell, the "godfather" of the Peak Oil movement, with a bit of pique divided the conference presenters into three camps:

the Surveyors, who report hard data and not abstract modelling; the Economists, who deny reality and assert that money produces energy and not the other way around; and the Pretenders, "who know full-well what the situation is but pretend otherwise for short-term political objectives". In the last camp he places Faith Birol of the IEA, supposedly the world's energy watchdog.

Even Birol made his own startling revelations on the second day when he confirmed that another new trend, new since Paris, had become dominant. Many presenters from German and European industry began listing a new priority for future energy planning that I had not heard before. They all emphasised "energy security" as the top concern, or one of their most important concerns, for the future. I checked my notes from Paris; I hadn't recorded its being mentioned once. That sounded military to me, at least in terms of building geostrategic alliances which always have military options included. When confronted directly on that point, the presenters retreated to assertions that what they really want are treaties and economic agreements. "Well," I thought, "what enforces those things?"

Birol also hit hard on this point. Then he engaged in a kind of irrational presentation in which he put forth four points. The first two were telling. Firstly, he said the IEA is absolutely certain that there is enough energy to guarantee economic growth until 2025. In his next point, he said that (in light of Shell's downward revisions and pending revisions from other major oil companies) there is sufficient uncertainty about the true nature of stated world reserves that a new "transparent" reserve accounting system should be established to provide the needed trust for the financial markets. In other words, his first point is meaningless.

Colin Campbell, seated on the panel with Birol, quipped, "If there were transparency, it would be clear that we are at peak now and everything might fall apart". Again, I thought of the headlines and war and said to myself, "Um, it already is".

British Petroleum and ExxonMobil also stepped through the looking glass. After presenting a series of slides which almost everyone in the audience was quite capable of reading, BP spokesman Francis Harper, addressing the issue of "reserve growth", refused to answer two direct questions about how his charts had just absolutely confirmed an imminent peak and decline. He just didn't answer. He did say that "Reserve estimates are uncertain and can vary widely throughout field life".

Later, ASPO founder Campbell speculated that BP is perhaps the worst book-cooker of all the majors when it comes to reserves, and that there may be some large surprises coming as increasing pressure is put on the majors to produce transparent and verifiable calculations.

ExxonMobil's G. Jeffrey Johnson, while saying that supply is sufficient to satisfy growth until 2020, also admitted that current decline is at 4–6% per year. Economic growth is not possible without increased energy production. When asked by me where ExxonMobil is working feverishly to find new reserves, Johnson rattled off a list of countries and regions already well familiar to *FTW* readers: West Africa, Middle East and South America. Not one of those well-explored regions has anything near the two or three Ghawar fields we need to find immediately to avert a crisis.

Assuming sufficient oil were found, how much money would be needed to develop it and bring it to market? ExxonMobil's spokesman indicated that a global *annual* investment of US$530 billion would be required. The IEA's Faith Birol stated that $16 trillion would have to be invested before 2030 to develop oil and gas reserves that, even he admitted, no one is sure exist.

Ali Samsam Bakhtiari: A Candid Assessment

Another fixture at ASPO conferences is Ali Samsam Bakhtiari, Vice President of the National Iranian Oil Company (NIOC). A suave and genial Persian on whose tribal land the first oil well in the Middle East was drilled, Bakhtiari was doggedly followed by journalists and documentarians looking for relevant quotations. Frequently in the company of Simmons, he remained available throughout the conference. Bakhtiari is firmly in the camp of the Surveyors, warning about Peak Oil and convinced of its certainty. It was he who, in Paris, dropped the first hints to me and others that Saudi Arabia may have peaked in May 2003. I have come to call him "the Prophet Ali"—a label which makes him quickly blush and wave his hands in embarrassment.

Like others from the region attending the conference, Bakhtiari brought new warnings. He cited the data about sudden and unexpected declines as the result of bottle-brush drilling in the region, and expressed his strong doubts that Saudi Arabia could increase production under *any* circumstances. While a bit more reticent to express his fears about growing instability within the region, he was more candid in his assessment of the global energy picture.

Bakhtiari told the conference: "The crisis is very, very near. World War III has started. It has already affected every single citizen of the Middle East. Soon it will spill over to affect every single citizen of the world. Syria's oil production is in terminal decline. Yemen is following. Major Middle East producers, including Saudi Arabia, will peak soon or have already peaked."

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– Ali Samsam Bakhtiari
Vice President
National Iranian Oil Company

Off the stage, he was even more direct. "The present war cannot be confined to the Middle East. It will soon spill over to the rest of the world. The final implications will upset the global applecart."

Rimini and Uppsala Protocols: Ethical Management

Colin Campbell has begun the search, from a true expert's viewpoint, for immediate, if admittedly incomplete, solutions. In his final presentation, he submitted a draft of a plan to manage decline ethically. Called the Uppsala Protocol (formerly the Rimini Protocol; see http://www.peakoil.net), Campbell's simple proposal approaches Peak Oil from the perspective of humanitarian and egalitarian imperatives rather than market forces. Though simple in concept, the two proposals for future consumption in the Uppsala Protocol may ultimately force mankind to make a fundamental choice about what its moral "True North" really is.

As the conference ended, Campbell and others debated whether to take the conference to Brussels ("Broadway", as he called it), home of the European Union, in 2005 or go to Portugal. I couldn't help thinking, "What are you waiting for?"

The World Awaits Confirmation

When I got back from the extended trip to Berlin, Cologne and Toronto, it was like all the "real-life" things that weren't mentioned in Berlin had ganged up on me. My in-box was flooded with Peak Oil stories from all over the world. The stories were coming out daily now; they seemed like pellets from a massive shotgun blast which people had not yet realised had been unleashed by only one trigger-pull and only one shooter. It had always been inevitable that, sooner or later, people, politicians and the markets would get it, perhaps all at once. It was the "later" possibility that scared most of us in Berlin.

If one scratched any surface in early June 2004, as the G8 nations gathered in Georgia with energy and the Middle East as their most pressing concerns ("G8 offers opportunity for Bush", CNN, June 7), as gasoline prices continued to rise, as a wave of terror attacks forced foreign technical service workers to flee Saudi Arabia, as Saudi Arabia continued *not* to increase production and as more data streamed in suggesting that it couldn't, one could almost feel panic lurking.

The biggest fear, however, subtly acknowledged by global policy-makers and not-so-successfully masked, is about *energy*. On June 6, Peak Oil arrived in the *Washington Post*. In a story titled "After the Oil Runs Out", James Jordan and James Powell wrote:

"...conventional oil production has already peaked and is declining. For every 10 barrels of conventional oil consumed, only four new barrels are discovered."

"If you're wondering about the direction of gasoline prices over the long term, forget for a moment about OPEC quotas and drilling in the Arctic National Wildlife Refuge and consider instead the matter of Hubbert's Peak. That's not a place, it's a concept developed a half-century ago by a geologist named M. King Hubbert, and it explains a lot about what's going on today at the gas pump. Hubbert argued that at a certain point oil production peaks, and thereafter it steadily declines regardless of demand. In 1956 he predicted that US oil production would peak about 1970 and decline thereafter. Skeptics scoffed, but he was right...

"It now appears that world oil production, about 80 million barrels a day, will soon peak. In fact, conventional oil production has already peaked and is declining. For every 10 barrels of conventional oil consumed, only four new barrels are discovered. Without the unconventional oil from tar sands, liquefied natural gas and other deposits, world production would have peaked several years ago…

"…Lost in the debate are three much bigger issues: the impact of declining oil production on society, the ways to minimize its effects and when we should act. Unfortunately, politicians and policymakers have ignored Hubbert's Peak and have no plans to deal with it. If it's beyond the next election, forget it.

"To appreciate how vital oil is, imagine it suddenly vanished. Virtually all transport—autos, trucks, airplanes, ships and trains—would stop. Without the fertilizers and insecticide made from oil, food output would plunge. Manufacturing output would also drop. Millions in colder regions would freeze…"

It was a tepid entry from the *Post*, but a start. The story relied on generalities about peak and decline, to the exclusion of all the hard data that have surfaced over the last two years. Simultaneously, it tried to give false comfort without foundation.

Just over a month before, on April 26, the *Moscow Times* had been a bit more direct. "G-7: Oil Price Threatens World Economy" was the headline, and the story minced no words:

"...In a statement released after talks in Washington, the G-7's central bankers and finance ministers singled out energy costs as a risk to global growth. Crude oil prices are up about 37 percent from a year ago and have risen 11 percent to nearly 11-year highs around $37 per barrel since the officials last met in Florida on Feb. 7.

"'It is obvious that rising oil prices can have a negative effect on world GDP growth,' said US Treasury Secretary John Snow. German Finance Minister Hans Eichel said the Organization of Petroleum Exporting Countries must 'live up to their responsibility for the global economy'..."

These stories were followed shortly thereafter by more which edged dangerously close to the panic line. And all throughout May and June, webs of sophistry were spun forth by pundits who misrepresented data with only one real intent: a desperate effort to "protect" the markets. That effort had apparently failed.

Some, like Sterling Burnett in a *Houston Chronicle* Op Ed of May 29, blithely claimed that there is enough oil to last for 500 years. Not even the chief critics of Peak Oil would do that. Others, like Victor Canto of the *National Review* ("Hubbert's Holes", June 4), said it was all a matter of economics; need and price would produce a painless substitution with some new energy source he wasn't quite able to describe or hadn't fully researched.

Even the shameless George F. Will, writing in the *New York Post* ("America After Oil", June 13), while not fully able to say that Peak Oil isn't real, suggested that everything is a function of price and that throwing money at the problem would soften the blow, while at the same time offering an unfounded morsel of hope for the easily frightened by saying, "But, then, Alaska may have three times more reserves than originally estimated".

George, we've been there. Estimated reserves? Probable reserves? Proven reserves? Ultimately recoverable reserves? The kind of reserves that caused Shell to revise its "booked" reserve figures downwards four times in one year? (Canadian Broadcasting Co., May 24) The kind of reserves that caused the IEA's Chief Economist Faith Birol to state that a deep, new transparency is needed in the reporting if we are to find out how much there really is? The kind of reserves that British Petroleum was forced to defend on June 14 (AP Business Wires), while warning that new calculations might result in downward revisions? The kind of reserves that serve only to define share values and which exist only in the minds of economists, brokers and stockbrokers? The kind of reserves which cannot and will never be pumped into your gas tank, or be used to grow and transport your food, or get you to work? The kind of reserves that prompted *Business Week* to ask on June 21, "Why isn't Big Oil drilling more?", or Steve Raabe of the *Denver Post* to write on June 13, "US Faces Reality Check Over Oil", or Alex Berenson to write in the *New York*

Times on June 12, asking why, for six years, Chevron Texaco's stated oil reserves have risen while their production has steadily fallen? Are we drilling more now and enjoying it less? Where is the money for drilling coming from, as oil companies buy back shares, streamline and build up cash reserves?

Duh! Big Oil isn't drilling more because they know there are no more large finds out there to drill in. More drilling doesn't mean more supply. It means more holes in the ground. This is what people like M. King Hubbert, Kenneth Deffeyes, Richard Duncan, Walter Youngquist, Colin Campbell, Kjell Aleklett, Jean Laherrère, Richard Heinberg, Julian Darley, Matt Simmons and all of our colleagues have been warning about for years.

That is why I have taken such pains over the years to document how the world's economic system is hopelessly corrupt and absolutely incapable of telling the truth. Yet, even so, there are still signs that the thin veneer between outward confidence and fear—between a half-truth which is really a lie and a whole truth which can lead to real solutions—is quickly dissolving. But until *that* Rubicon is crossed, until the deception and denial are overcome, there will be no real solution other than continued war, bloodshed and destructive behaviour which are blocking us from more peaceful, longer term and more humane solutions.

George Bush and Dick Cheney may have meant it when they said that the American way of life is not negotiable. But it most certainly is on life-support and being sustained by cruelty, brute force and lies.

It is what we are doing in the face of it that is mankind's greatest challenge...

The Markets Just Can't Hide It Anymore

On April 7, J. P. Morgan hosted a two-day private conference call for its analysts and major investors, titled "Peak Oil: Fact or Fiction?" *FTW* secured permission to get veteran investigative journalist Suzan Mazur on the line to listen to that conference, and we reported on it to our subscribers. (I listened, too; see http://www.fromthewilderness.com/free/ww3/042204_mazur_morgan_oil.html.) Although Morgan barely stuck a toe into the water, the mere fact that it had decided the subject was important enough to address was a watershed moment. This, even as Bloomberg and *Forbes* were advising their more sophisticated readership about profit opportunities and likely consequences of Peak Oil's arrival. That, of course, raised the unholy spectre of wild speculation that could cause untold human suffering as a result of price gouging.

It reminded me of the recommendation of Matthew Simmons in Berlin that oil futures and speculation should require a 50% margin requirement for investing in oil derivatives (futures).

Finally, at long last, someone said it all in plain English on June 13, 2004. On that day, the *Seattle Times* published an editorial by Scott Burns titled "Oil and S&P connection points to grim news for stocks". Finally!

Prior to this admission, CBS News MarketWatch issued a bulletin on May 26, saying that US new home sales had fallen sharply in April, and that was followed soon after on May 30 by a bulletin from another source, investment consultant Robert D. McHugh, drawing attention to a sudden and dramatic increase in America's M3, credit-based, money supply (http://www.safehaven.com/article-1597.htm):

"...the Federal Reserve has confirmed our Stock Market Crash forecast by raising the Money Supply (M-3) by crisis proportions, up another 46.8 billion this past week. What awful calamity do they see? Something is up. This is unprecedented, unheard-of pre-catastrophe M-3 expansion. M-3 is up an amount that we've never seen before without a crisis—$155 billion over the past 4 weeks, a $2.0 trillion annualized pace, a 22.2 percent annualized rate of growth!!! There must be a crisis of historic proportions coming, and the Federal Reserve Bank of the United States is making sure that there is enough liquidity in place to protect our nation's fragile financial system. The amazing thing is, the Fed's actions mean *they know* what is about to happen. They are aware of a terrible, horrific imminent event. What could it be?..."

We have to pay for *$100 (or higher) a barrel* of oil somehow. Why don't we just print the money? Anyone who has heard of the damage done by inflation and hyperinflation to those least able to cope with it should think back to Germany's Weimar Republic in the 1920s. Perhaps they should also look ahead to future wars, as the US Navy announced on *Voice of America* News on May 31 that it was deploying a US aircraft carrier battle group to the Gulf of Guinea off the West African coast for a joint exercise with our newfound friends—the tiny island nations of São Tomé and Principe, which had just experienced a US-friendly coup.

I no longer need to defend Peak Oil and Gas. My assistance on that front seems wholly unneeded. It's doing fine all by itself. It is what we are doing in the face of it that is mankind's greatest challenge, and is the challenge of my future work.

As if to punctuate this report and remind us of the great fear expressed by one attendee at the Berlin conference, on June 16 CNN reported that the security chief for all oil operations in northern Iraq had been assassinated in an ambush as he left for work that morning. This, but one day after another bombing of a major Iraqi pipeline. ∞

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On November 28, 2001, Mike gave his first post–9/11 lecture at Portland State University, Oregon, resulting in *FTW*'s video, *The Truth and Lies About 9/11*, which has sold more than 10,000 copies (see review, NEXUS 9/05). Mike's new book, *Truth and Lies of 9/11: America's Descent into Fascism at the End of the Age of Oil*, will be available in late 2004. Mike was a speaker at NEXUS Conferences in Sydney in 2002 and Amsterdam in 2003 (video and DVD available from NEXUS offices), and many of his articles have been published in NEXUS Magazine, most recently his 2002 interview, "Colin Campbell on Oil", in 10/01.

The full text of this Peak Oil article is at http://www.fromthewilderness.com/free/ww3/062104_berlin_peak.html.